

CHAPTER I EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Japan's commercial environment, using economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

America's bilateral trade and economic relationship with Japan continues to be heavily influenced by the divergent economic performances that have prevailed in the two nations for most of the past decade. In 1999, strong consumption spurred by a robust U.S. economy, combined with a still halting economic recovery in Japan, helped generate a record U.S. trade deficit of \$73.4 billion. With U.S. export growth flat in 1999, the increase in the deficit mirrored the \$9 billion rise in U.S. imports from Japan in 1999. American imports from Japan in 1999 were a record \$131 billion.

Even after a decade of weak economic performance, Japan's recovery remains sluggish and largely dependent upon massive government spending. Despite the adoption of a \$172 billion stimulus package in November 1999, the ninth since 1992, Japan's economy has yet to exhibit clear evidence that a sustained recovery is underway. In 1999, the Japanese economy generated a growth rate of only 0.2 percent. Japan's economy continues to be hampered by problems in the financial sector, relatively high unemployment and excessive regulation. In addition, the burgeoning government budget deficit may limit further recourse to fiscal stimulus packages.

Still, a number of factors are beginning to generate positive trends. The Japanese Government's multi-year deregulation program, while modest, has eliminated a range of impediments to business activity. In addition, many Japanese corporations have been aggressively restructuring their businesses to reduce costs, improve profitability and enhance their competitiveness. Foreign investment into Japan, which more than tripled in 1999, is contributing to a more vibrant business environment.

As the world's second largest economy, and the consumer of \$57 billion in U.S. exports in 1999, Japan remains a huge market for American goods and services. Significant opportunities continue to emerge for American firms, particularly as Japanese companies seek to become more competitive and begin to look beyond established domestic business relationships to lower cost foreign suppliers. While the difficult work of restructuring necessitated by excessive debt and over-regulation continues, Japan is making progress. With an economy that represents three-quarters of the Asian market, even in a slow or no growth situation, significant business opportunities exist and emerge on an ongoing basis.

The most competitive sectors for American companies remain in the high technology and service industries. The computer, software, semiconductor, pollution control and medical device sectors continue to generate enormous business opportunities for U.S. firms. On the

telecommunications front, expanded internet use and a proliferation of "dot-com" start-ups have created a dynamic business environment in a sector critical to Japan's economic recovery.

A number of services industries also represent bright prospects for American firms. In addition to travel and tourism, architecture, construction and engineering services, which have traditionally been a strength of U.S. firms in Japan, new service opportunities are emerging. Financial and healthcare services are two areas where future business prospects for U.S. companies appear particularly promising.

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